

Noncredit insurance and service contracts financed by consumer loans

HB 1380 by Thompson (Harris)

DIGEST: HB 1380 would have allowed a lender to offer noncredit insurance and certain other products either contemporaneously with or subsequent to certain nonreal property loans. The loan would have been subject to all applicable insurance laws of the state. A lender could have offered life insurance, disability income insurance, accident insurance, loss of income insurance, mechanical breakdown insurance, home security plans and club memberships, automobile security plans and automobile club memberships, and service contracts. A lender could not have required the purchase of such a product as a condition for loan approval.

The lender would have had to obtain written acknowledgment of the borrower's intent to buy the product, and any benefit payable as a result of owning the product would have had to be paid directly to the borrower. The borrower would have been entitled to cancel the purchase and receive a full refund of purchase price within 30 days, or within 10 to 20 days for a service contract, depending on whether it was delivered or mailed. A separate notice to the customer would have had to state that the product was not credit insurance, nor a condition for loan approval; that the borrower would pay a finance charge on the product's cost if financing the purchase; and that the borrower could cancel the purchase.

The consumer credit commissioner would have had to adopt rules providing for a version of the disclosure information in Spanish and establish a disclosure form meeting statutory requirements for plain language and readability.

GOVERNOR'S REASON FOR VETO: "House Bill No. 1380 would fail to protect consumers from unreasonable interest rates. It would allow lenders to finance the charges for noncredit insurance covering life, disability income, accident, loss of income, and mechanical breakdown. Lenders could also finance home security plans, club memberships, and service contracts. The rates for these types of noncredit insurance and other products are not regulated and only some of the policy forms have oversight."

RESPONSE: Rep. Senfronia Thompson, the bill's author, was unavailable for comment. Sen. Chris Harris, the Senate sponsor, had no comment on the veto.

NOTES: HB 1380 was analyzed in Part Two of the May 10 *Daily Floor Report*.